

Thursday, February 5, 2009



Hollowell

## Granholm targets insurance reform

**With nation's highest collision premiums, Michigan rates need limits, oversight, state report says.**

**Gary Heinlein and Charlie Cain / Detroit News Lansing Bureau**

**LANSING** -- Claiming auto insurers are exploiting Michigan motorists with sky-high rates that have swelled their corporate profits to record levels, the state's insurance consumer advocate called Wednesday for tough reforms he said will put drivers back in control.

"We have unaffordable (auto) insurance in Michigan that we are compelled to buy, and that's got to stop," said Melvin "Butch" Hollowell. Gov. Jennifer Granholm appointed him last year to review the state's insurance climate and suggest changes that will make it more available and affordable.

He said Michiganians pay the nation's highest collision premium -- \$436 a year on average -- for accident coverage. Collision coverage is the highest cost item in the typical insurance policy, which also includes coverage for personal injury and liability and other options. Detroiters pay the highest urban rate for overall coverage in the country, an average \$5,072 a year -- \$1,200 more than Philadelphia, which has the second-highest rate.

"This report will be a blueprint for achieving my longstanding goal of affordable, reliable and fair rates for Michigan citizens," Granholm said in a statement.

Among Hollowell's recommendations: Auto insurance companies would have to receive state approval before raising rates, and they would be prohibited from using applicants' credit scores, occupations or education to set policy costs.

Not surprisingly, Hollowell's agenda wasn't embraced by the insurance industry, or Republicans who control the state Senate and would need to approve insurance law changes.



And insurers didn't jump at Granholm's call this week for a yearlong freeze on premiums, to give lawmakers a chance to reform insurance laws.

Peter Kuhnmuench, executive director of the Insurance Institute of Michigan, a trade group, predicted "there will be a great reluctance" to freeze rates because insurers don't know that far in advance how much they'll have to pay in claims.

AAA Michigan said it was "reviewing the details" of the governor's request.

Hollowell said the mushrooming insurance costs in Detroit and other urban areas have led many drivers -- about 20 percent in the state and 50 percent in some cities -- to conclude that they can't afford to buy it -- even though the law says they must in order to drive legally.

"Michigan consumers pay the highest auto insurance rates in the country when they can least afford it," he said. "The industry has raised rates 69 percent since 1991 while enjoying virtually no regulation for 30 years."

Hollowell, who lives in a comfortable neighborhood in northwest Detroit, said he pays \$12,000 a year to insure four cars -- two of which he describes as "beaters."

## Dramatic rise in profits

Auto insurer profits and rates have increased dramatically this decade, despite a downward trend in the number of claims being filed by customers and in the claim dollars paid out, Hollowell said.

For their part, Michigan insurers blame the state's rates on accident numbers, higher new car prices, rising repair costs and the unlimited medical benefits offered to severely injured motorists through the catastrophic claims fund. The fund is unique to Michigan among the country's 12 no-fault states. Michigan would keep its no-fault system under the recommendations.

"Very few of these proposals do anything to take cost out of the system," said Kuhnmuench. "We deliver real value for the dollars, compared to any other state. This just seems like more bureaucratic regulation we don't need."



The industry says money can be saved by allowing Michigan drivers to opt out of the unlimited medical coverage required by Michigan law, setting a fee schedule to limit what medical care providers are paid for treating injuries and stepping up programs to reduce the number of auto thefts and the amount of auto insurance fraud claims.

Hollowell will discuss his proposals with lawmakers but likely faces an uphill battle because of stiff opposition from the Republican-controlled Senate.

"The governor claims to advocate for business-friendly climate, but her insurance czar is calling for extraordinary regulations with the potential for decimating an existing state business interest," said Matt Marsden, spokesman for Senate Majority Leader Mike Bishop, R-Rochester.

"I don't see how pushing this agenda serves the goal of addressing our top priority: squaring away the (\$1.6 billion) deficit we have before us."

## More recommendations

Also recommended in the 328-page report:

- Develop a legal definition of "affordability," which the insurance commissioner would then use to determine if rates are fair and reasonable.
- Allow consumers with collision coverage to recover full repair costs from at-fault drivers who run into them. There's now a \$500 limit on the amount that can be collected from the at-fault driver's insurer.
- Strengthen the insurance commissioner's authority to award refunds to customers when they have been overcharged.
- Prohibit insurers from sharing their customers' personal information with outsiders or marketing partners.
- Consider low-cost auto insurance for low-income drivers who are good drivers. A similar program in California provides coverage for about \$400 annually.



- Prohibit the state insurance commissioner from going to work for insurance companies for at least two years after leaving office, to help make sure rate decisions are impartial. Seven of the last 11 insurance commissioners were hired by insurers directly after leaving office, Hollowell said.
- Enact tougher penalties against insurers that raise rates or cancel policies when customers submit claims for accidents that weren't their fault.
- Require insurers to post, on the Internet and in plain language, proposed rate increases and the rationale behind them and allow customers to challenge increases.

*You can reach Gary Heinlein at (517) 371-3660 or [gheinlein@detnews.com](mailto:gheinlein@detnews.com).*

---